**NEWSLETTER****The Newsletter of LAVECO Ltd. – 15 years in Hungary****How many offshore companies are there in the world?**

If you are interested in this question, and are hoping for an exact answer to it from this article, then I'm afraid I'm going to disappoint you: I don't know! The truth is, however, nobody knows. There isn't a specialist in the world who could even give a good estimate, even though it is a subject which many of us are very interested in. In this article, all I can do is shed some light on just how many offshore companies there could be in the world, and at the same time try to give an insight into how difficult it is to come even close to getting an exact figure.

Offshore Investment, the leading specialist offshore magazine available, publishes a list each year of the number of companies incorporated in the jurisdictions they consider the most important. The figures published in this article are based on this list (Offshore Investment, March 2007)

**1. List according to number of companies incorporated**

Position	Jurisdiction	Companies formed in 2006
1	Hong Kong	73 359 (2005)
2	British Virgin Islands	51 101
3	Panama	36 627 *
4	Cyprus	20 280
5	Cayman Islands	10 000 **
6	Belize	9 500
7	Seychelles	8 281
8	Bahamas	6 121 ***
9	Samoa	Not available
10	Gibraltar	Not available
11	Jersey	3 479
12	Isle of Man	3 400
13	Anguilla	3 200
14	Malta	2 979
15	Mauritius	2 881
16	Guernsey	1 977
17	Brunei	1 500 ** (2005)
18	St. Vincent	1 381
19	Bermuda	1 200 **
20	Barbados	565
21	Labuan	526
22	St. Lucia	Not available
23	Madeira	Not available

2. List of jurisdictions in alphabetical order

Jurisdiction	Companies formed in 2006
Anguilla	3 200
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* + 4 688 Private foundations ** Approximate figure *** Offshore + local

It is quite clear from the figures that the leading jurisdictions are Hong Kong, Panama and the British Virgin Islands, at least as far as the number of companies registered is concerned. The “podium places” have remained unchanged for years, and if we compare the list with the figures from last year, we can see no great change in the medal positions.

Some of the reasons behind their success are similar, while others are different. The similarity lies in the sound foundations, or rather the length of time that these jurisdictions have been offering advantageous tax possibilities to the general business public. Apart from minor amendments made over the decades, the company law in Panama has remained largely unchanged since 1927. The essence of the Panamanian model is that based on the principle of territorial taxation, companies can operate both within Panama and abroad. Income from Panamanian sources is subject to profit tax, while profits made outside Panama are tax-free. The fact that the vast majority of companies do not even want to generate income in Panama, and will only operate outside the jurisdiction is immaterial. It is true that the name of this small country in Central America may not sound too prestigious, but as they have been offering offshore services for so long, people throughout the world, and in particular Latin America, happily choose the Panama offshore company format.

Hong Kong’s strong position is based in part on stability. The return of the city state to the People’s Republic of China has not adversely affected the situation. They have retained their independence, and this is also the case in the area of legislation. The popularity of Hong Kong has naturally been increased by the fact that it is one of the favourite – if not the favourite – jurisdiction for investors in the developed and rapidly-developing Asian region. And the law of averages also plays a role – the Asian population is huge, and there are numerous businessmen with a demand for these services.

The success story of the British Virgin Islands (BVI) is

perhaps the most recent of the three leading jurisdictions. Numerous jurisdictions later adopted the BVI International Business Company Act passed in 1984, but none have been able to duplicate the success of the BVI. Since January 1st 2005, they have been continually introducing amendments to the legislation, restricting the issue of bearer shares, but, as the number of companies registered last year shows, the international market has not been scared off and there is still a great deal of confidence in the British Virgin Islands.

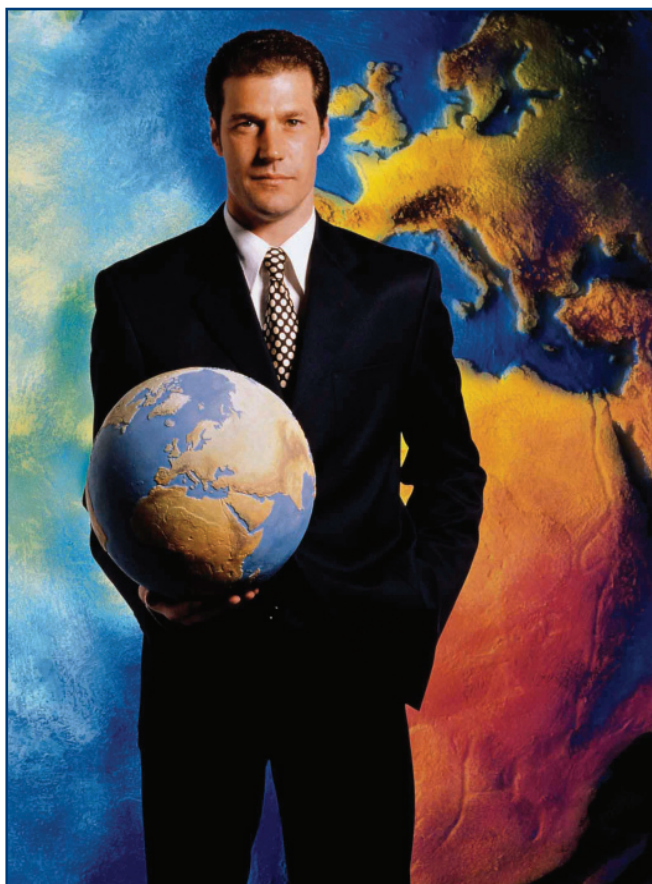
It is also worth noting that in 4th place was Cyprus, where more than 20 000 companies were registered last year. This is a huge figure, as they have doubled the

number of company registrations in 2 years. The reason behind this is clearly the accession of Cyprus to the European Union. If we try to analyse the main types of tax, then Cyprus offers the most advantageous tax rates of the entire EU. And in the eyes of non-EU clients, Cyprus is no longer the one time “tax haven”, with its 4.25% tax, but instead a serious member of a large economic region, with a corporate tax rate of 10% on profits.

All these, of course, are the visible details and figures – the statistics which can be analysed. But what about the figures we can’t see? Here, there are two very important questions to consider. The first is how many *active* offshore companies are there in the world? The problem is

that although so many companies have been incorporated in the British Virgin Islands over the years, only a fraction of those are active. The majority no longer exist – they are companies which no longer operate or have simply been forgotten and whose operators do not pay the annual maintenance fees. But as to how many such companies there are, it is impossible to say. Nobody keeps records of this nature. And this is not only the case in the British Virgin Islands. If we examine all the various jurisdictions, then we will find similarly inactive companies.

The second important question concerns the offshore term itself: what exactly do we mean by “offshore”? Which



companies are offshore companies and which are not? The problem becomes clearer if we look at the example of the USA. It is an established fact within the industry that a very significant proportion of clients use American companies for offshore purposes. The Limited Liability Company (LLC) format, if well constructed in accordance with American tax laws, represents a company model free of taxes from the American point of view. Delaware is still the favourite state, with its very liberal, but at the same time exemplary, legislation. Based on the serial numbers appointed to each company registered, we can see that the numbers advance by about 300 000 each year. So is this the number of new companies registered? If this is the case, and even if only half of those are used by non-US clients, then the figure far exceeds any of the data from the above list. And, in addition, there are another 49 states offering the same, or very similar, conditions for the registration of LLC type companies. It is impossible to say to

what extent New York, Washington D.C., Nevada, Utah, Oregon, Florida etc. are contributing to the number of offshore companies being registered in the world.

Furthermore, we have not included those jurisdictions which are not prepared to publish details of the number of companies registered, such as, for example, Liechtenstein. I hope now you are beginning to see why I wrote at the beginning that there isn't a specialist in the world who can answer the question which appears in the title of the article. The tendency, however, is clear: hundreds of thousands of new offshore companies are being established throughout the world each year, not only in the various offshore jurisdictions, but also in the non-offshore ones. Continuing this train of thought, we can assume that there are currently several million active offshore companies operating in the world economy. Can you imagine this couple of million offshore companies disappearing from the world economic stage overnight?

Panama removed from blacklist

Panama has been removed from the blacklist of the Russian Central Bank. The list, first published in the second half of the 90s, contained those jurisdictions whose financial transactions were deemed by the Central Bank to be worthy of special attention from the Russian banking sector. The removal from the list comes as a result, at least in part, of the bilateral arrangements and agreements concluded between Panama and Russia.

Samuel Lewis Navarro, Panama's foreign minister, achieved similar results in his meetings in France, with Panama also being

removed from the blacklist drawn up by the French tax authorities. This gesture by the French was aimed at helping French enterprises operating in Panama, particularly in regard to the expansion of the Panama Canal.

But what exactly are these blacklists really? As the name suggests, certain state organisations or national bodies draw up lists of offshore jurisdictions whose legislation and legal practices they consider harmful to their own country

or region. The main objection raised against the offshore jurisdictions is that they siphon off capital, or rather taxation income, from countries which typically have very high rates of taxation. To defend against this, the aim of the lists is to create a kind of discrimination, or "deterrent". Public opinion can generally be swayed by the notoriety of the lists, leading clients to think seriously about whether it is worth establishing a company in a blacklisted jurisdiction, or rather avoiding such complications.

The most serious sanction, however, is when the country using the list introduces concrete financial steps. For example, they may not allow, or may impose conditions on, certain bank

transfers. The other important area of sanctions is where local companies who, say, pay invoices from blacklisted jurisdictions, may be subjected to more stringent inspections. If, for example, a German company includes in its accounts an invoice for consultancy services from a company in Liechtenstein, this may be enough for the authorities to instigate a full tax inspection of the German company for the last 5 years.



Hong Kong: the Chinese offshore?

Many people watched the return of Hong Kong to the People's Republic of China with bated breath. In the business world, the people of Hong Kong and foreigners alike were afraid that the economy would collapse or decline, if the communist country did not respect the independence of the city state. However, the party leaders had no intention of changing Hong Kong's particular economic role. Almost everything has continued virtually unchanged since 1997, with the economy performing well, and no sign of decline.

This is also true of the offshore industry. From the point of view of the number of companies registered, Hong Kong is one of the leading jurisdictions, and has been for many years. If anything, its popularity, or rather its role within the offshore world, has grown over the last 10 years.

In the case of Hong Kong, the principle of territorial taxation means that the company can operate both in Hong Kong and abroad. Activities carried out in or with other regions of the People's Republic of China are considered to be outside Hong Kong. While any profits made in Hong Kong are subject to tax at the rate of 16.5%, which



companies are required to pay, any profits made outside Hong Kong are completely tax-free. So, income received, for example, by an intermediary in trading transactions can be free from tax in Hong Kong. However, in order for the local authorities to control this, companies are formally required to deposit an audited balance in Hong Kong each year. If, though, all of the company's activities were performed outside Hong Kong, and the company's operational director or beneficiary clearly declare that this was the

case, then this results in a so-called negative audit being prepared, or rather filed with the local authorities, and on the basis of this the company is not required to pay tax on the income acquired outside Hong Kong. This negative audit is basically a formality, which can be arranged relatively

easily and for a fixed fee through the local accountant's office.

Hong Kong companies have become particularly popular with clients who import goods from the Far East and sell them on, for example, in a member state of the European Union. In this case, they use the Hong Kong company as an intermediary in trading transactions with other areas of China.



Liechtenstein: the banking paradise?

Registering a company or foundation in Liechtenstein today is, if not a privilege reserved for the super rich, an expensive business to say the least. The registration

fee, including the annual fees for the first year, varies between 12 000 & 13 000 Swiss francs, depending on the service provider. If we then look at the services provided by the company and the advantages, it soon becomes clear that the Alpine state is not too competitive when compared to other jurisdictions.

Liechtenstein does, on the other hand, have one undeniable advantage: its banking sector. Although the principalities' banks are within Europe, they are still outside the European Union. It is true that the services are expensive, but the standards are exceptional. The area in which they are particularly strong, and can offer more than their competitors, is investment banking services. The decades-old culture which has developed there, or rather which seems to have been passed down from one generation of bankers to the next, also contributes strongly to this. Whatever happens, it is certainly worth sparing a few minutes to mull over the services offered by the banks in Vaduz, as it is very hard to imagine an offshore company without a bank account. We will be publishing a special report on the possibilities offered by the banking sector in Liechtenstein in the next edition of the LAVECO Newsletter.

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